

EXHIBIT H

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED: JUNE 30, 2012

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 001-16109

CORRECTIONS CORPORATION OF AMERICA

(Exact name of registrant as specified in its charter)

MARYLAND
(State or other jurisdiction of
incorporation or organization)

62-1763875
(I.R.S. Employer
Identification Number)

10 BURTON HILLS BLVD., NASHVILLE, TENNESSEE 37215
(Address and zip code of principal executive offices)

(615) 263-3000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☒

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each class of Common Stock as of August 6, 2012:

Shares of Common Stock, \$0.01 par value per share: 100,047,271 shares outstanding.

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CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(UNAUDITED AND AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	June 30, 2012	December 31, 2011
<u>ASSETS</u>		
Cash and cash equivalents	\$ 63,130	\$ 55,802
Accounts receivable, net of allowance of \$1,318 and \$1,218, respectively	250,445	269,685
Deferred tax assets	7,976	11,768
Prepaid expenses and other current assets	26,448	18,676
Current assets of discontinued operations	12	3,498
Total current assets	348,011	359,429
Property and equipment, net	2,592,252	2,608,740
Restricted cash	5,018	5,013
Investment in direct financing lease	8,376	9,233
Goodwill	11,988	11,988
Other assets	30,357	25,047
Non-current assets of discontinued operations	—	181
Total assets	<u>\$2,996,002</u>	<u>\$ 3,019,631</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Accounts payable and accrued expenses	\$ 168,311	\$ 195,726
Income taxes payable	94	605
Current liabilities of discontinued operations	1,170	2,031
Total current liabilities	169,575	198,362
Long-term debt	1,190,764	1,245,014
Deferred tax liabilities	136,316	136,503
Other liabilities	34,777	31,730
Total liabilities	1,531,432	1,611,609
Commitments and contingencies		
Preferred stock—\$0.01 par value; 50,000 shares authorized; none issued and outstanding at June 30, 2012 and December 31, 2011, respectively	—	—
Common stock—\$0.01 par value; 300,000 shares authorized; 99,977 and 99,528 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively	1,000	995
Additional paid-in capital	1,137,024	1,129,435
Retained earnings	326,546	277,592
Total stockholders' equity	1,464,570	1,408,022
Total liabilities and stockholders' equity	<u>\$2,996,002</u>	<u>\$ 3,019,631</u>

The accompanying notes are an integral part of these consolidated financial statements.

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State revenues increased \$6.1 million, or 2.9%, from \$213.8 million for the three months ended June 30, 2011 to \$219.9 million for the three months ended June 30, 2012, and \$8.1 million, or 1.9%, from \$427.6 million for the six months ended June 30, 2011 to \$435.7 million for the six months ended June 30, 2012.

Despite these increases in management revenue, economic conditions remain challenging, putting continued pressure on our government partners' budgets. All of our state partners have balanced budget requirements, which may force them to further reduce their expenses if their tax revenues, which typically lag the overall economy, do not meet their expectations. Actions to control their expenses could include reductions in inmate populations through early release programs, alternative sentencing, or inmate transfers from facilities managed by private operators to facilities operated by the state or other local jurisdictions. Further, certain states have requested, and additional state customers could request, reductions in per diem rates or request that we forego prospective rate increases in the future as methods of addressing the budget shortfalls they may be experiencing. We believe we have been successful in working with our government partners to help them manage their correctional costs while minimizing the financial impact to us, and will continue to provide unique solutions to their correctional needs. We believe the long-term growth opportunities of our business remain very attractive as certain states consider efficiency and savings opportunities we can provide. Further, we expect insufficient bed development by our partners to result in a return to the supply and demand imbalance that has benefited the private corrections industry.

As of June 30, 2012, we had approximately 12,100 unoccupied beds at facilities that had availability of 100 or more beds. We have staff throughout the organization actively engaged in marketing this available capacity to existing and prospective customers. Historically, we have been successful in substantially filling our inventory of available beds and the beds that we have constructed. Filling these beds would provide substantial growth in revenues, cash flow, and earnings per share. However, we can provide no assurance that we will be able to obtain new or existing customers to fill our available beds.

Operating Expenses

Operating expenses totaled \$316.6 million and \$294.0 million for the three months ended June 30, 2012 and 2011, respectively, while operating expenses for the six months ended June 30, 2012 and 2011 totaled \$632.1 million and \$587.2 million, respectively.

Fixed expenses per compensated man-day increased to \$31.61 during the three months ended June 30, 2012 from \$30.22 during the three months ended June 30, 2011 primarily as a result of an increase in salaries and benefits per compensated man-day of \$1.39. Fixed expenses per compensated man-day increased to \$31.90 during the six months ended June 30, 2012 from \$30.52 during the six months ended June 30, 2011 as a result of an increase in salaries and benefits per compensated man-day of \$1.40. We provided wage increases in the third quarter of 2011 to the majority of our employees, which has resulted in an increase in operating expenses. These wage increases have negatively impacted operating margins, as per diem increases and other expense controls did not exceed the level of wage increases. However, we continually monitor compensation levels very closely along with overall

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economic conditions and set wage levels necessary to help ensure the long-term success of our business. In that effort, we provided wage increases in July 2012 to the majority of our employees which will result in increases in our fixed expenses per man-day in the second half of 2012. Salaries and benefits represent the most significant component of fixed operating expenses and represented approximately 64% of total operating expenses during 2011 and for the first six months of 2012.

Our fixed expenses were also negatively impacted by increases in employee benefits including primarily unemployment taxes, employee medical benefits, and workers compensation, as well as certain payroll tax credits that were available during the first six months of 2011 that are no longer available in 2012. Unemployment taxes have been affected by significant increases in many state unemployment tax rates, resulting from the nation's high unemployment rate as states struggle to fund benefits for the unemployed. Our self-insured employee medical benefits have been negatively impacted by adverse claims experience caused by a number of factors, including increasing medical rates and higher utilization by employee spouses and dependents. Although we also experienced negative claims in workers compensation during the first six months of 2012, including adverse claims resulting from an inmate disturbance at our Adams County Correctional Center during the second quarter of 2012, claims experience was favorable in the prior year, contributing to the increase in the expense. We continue to assess the causes and evaluate potential strategies to manage our increase in employee benefits.

Notwithstanding the impact of the wage increases provided in the third quarter of 2011 to the majority of our employees and the increases in employee benefits, \$11.1 million of the \$29.3 million increase in salaries and benefits during the six months ended June 30, 2012 compared with the same period in 2011 resulted from the activation of the Lake Erie and the Jenkins facilities, as well as from an increase in inmate populations at the Cimarron facility. Incurring staffing expenses in advance of the ramp-up of inmate populations at the Jenkins and Cimarron facilities, as well as during the ramp-down of inmate populations at the Otter Creek facility due to the termination of the management contract with the Commonwealth of Kentucky in July 2012, contributed to an increase in fixed expenses per compensated man-day.

Facility variable expenses per compensated man-day increased \$0.69, or 7.2%, during the three months ended June 30, 2012, compared with the same period in the prior year. Facility variable expenses per compensated man-day increased \$0.63, or 6.6%, during the six months ended June 30, 2012, compared with the same period in the prior year. The increases in facility variable operating expenses during the three- and six-month periods were largely the result of the start-up costs incurred to prepare the Jenkins and Lake Erie facilities for operation as well as incurring transportation charges to transport inmates from Puerto Rico to the Cimarron Correctional Facility under the new contract.

Facility Management Contracts

We typically enter into facility management contracts with governmental entities for terms from three to five years, with additional renewal periods at the option of the contracting governmental agency. Accordingly, a substantial portion of our facility management contracts are scheduled to expire each year, notwithstanding contractual renewal options that a government agency may exercise. Although we generally expect these customers to exercise renewal options or negotiate new contracts with us, one or more of these contracts may not be renewed by the corresponding governmental agency.

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In late January 2012, the governor of Kentucky submitted his proposed budget which included the transfer of the inmates held at one of our facilities to a facility owned by the state of Kentucky that had previously been closed. The Kentucky Department of Corrections has completed the removal of the inmates housed in the 656-bed Otter Creek Correctional Center, a facility we own in Wheelwright, Kentucky, and the facility was subsequently idled. Total revenue at this facility represented less than 1% of our total revenue during both the three and six months ended June 30, 2012 and 2011, and the facility generated operating losses of \$0.4 million and \$0.8 million for the three and six months ended June 30, 2012, respectively.

Based on information available at this filing, other than the contract with Kentucky at the Otter Creek facility, we believe we will renew all other contracts that have expired or are scheduled to expire within the next twelve months. We believe our renewal rate on existing contracts remains high as a result of a variety of reasons including, but not limited to, the constrained supply of available beds within the U.S. correctional system, our ownership of the majority of the beds we operate, and the quality of our operations.

The operation of the facilities we own carries a higher degree of risk associated with a management contract than the operation of the facilities we manage but do not own because we incur significant capital expenditures to construct or acquire facilities we own. Additionally, correctional and detention facilities have limited or no alternative use. Therefore, if a management contract is terminated on a facility we own, we continue to incur certain operating expenses, such as real estate taxes, utilities, and insurance, that we would not incur if a management contract were terminated for a managed-only facility. As a result, revenue per compensated man-day is typically higher for facilities we own and manage than for managed-only facilities. Because we incur higher expenses, such as repairs and maintenance, real estate taxes, and insurance, on the facilities we own and manage, our cost structure for facilities we own and manage is also higher than the cost structure for the managed-only facilities. The following tables display the revenue and expenses per compensated man-day for the facilities placed into service that we own and manage and for the facilities we manage but do not own:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
Owned and Managed Facilities:				
Revenue per compensated man-day	\$ 67.20	\$ 66.20	\$ 67.21	\$ 66.55
Operating expenses per compensated man-day:				
Fixed expense	33.66	32.05	33.98	32.27
Variable expense	10.81	10.13	10.67	10.07
Total	44.47	42.18	44.65	42.34
Operating margin per compensated man-day	\$ 22.73	\$ 24.02	\$ 22.56	\$ 24.21
Operating margin	33.8%	36.3%	33.6%	36.4%
Average compensated occupancy	86.3%	87.4%	86.1%	87.4%
Average available beds	66,719	63,797	66,250	63,797
Average compensated population	57,589	55,784	57,051	55,763